

# Virginia ABC Overview of Operations and Budget

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# Current State of the Control State

## Operating Expense

- FY 2017: \$637.0 million
- FY 2017 Operating expenses include: alcohol - 70.8%, personnel - 17.0%, retail occupancy - 4.9%, and contractual (VITA, freight) - 5.5%

## Employee Numbers

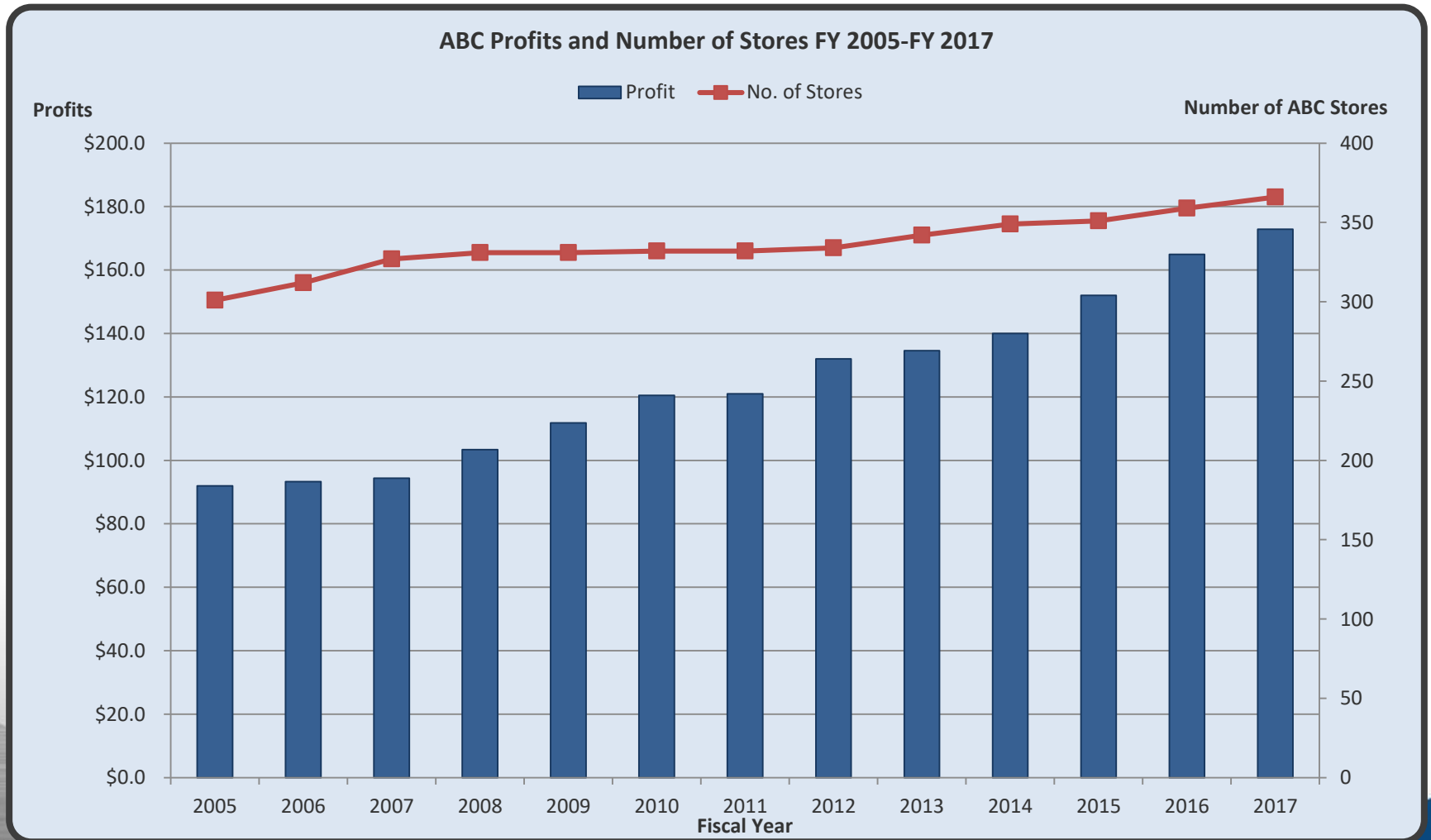
- ABC employees 3,794 full-time and part-time employees
  - 1,110 full-time
  - 2,684 part-time (increased by 556 in FY 2013 due to 29 hour cap)

## Mission Critical Statistics

- 370 stores open 362 days/year
- FY 2017 Gross Sales of \$940.1 million (up 4.7%)
- FY 2017 Profits of \$172.9 million (up 4.7%)
- Retail Licenses: 19,190 (up 1.3%)
- Total Cases shipped to ABC stores: 4,866,666 (up 3.62%)
- ABC store underage sales compliance – 99%
- Licensee underage sales compliance – 90%



# Historical Sales Growth



# Licensing and Enforcement

- Bureau of Law Enforcement
  - 110 employees
    - 88 sworn agents in 9 field offices
      - Field agents focus on retail and banquet license investigations
      - Compliance agents handle wholesale and manufacturer licenses
    - 22 civilian staff in Licensing and Records Management
  - Almost 19,000 retail licensees
  - 24,000 one-day banquet licenses
  - Activities include site inspections, application investigations, covert observations, planned operations and criminal investigations
  - Tax Management responsible for \$80M in excise tax collections
- Hearings Division
  - Adjudicates almost 500 cases annually
  - Most frequent cases involved underage sales and mixed beverage ratio (§4.1-114)

# Contributions to Commonwealth Last 6 Years Total \$2.4B

FY 2017 represents a \$15.2 million increase over FY 2016

*Dollars in Millions*

Revenue Source	FY 2017	FY 2016	FY 2015	FY 2014	FY 2013	FY 2012
ABC profit transfers	\$171.2	\$164.9	\$152.0	\$140.0	\$134.6	\$132.0
State taxes	\$154.4	\$147.8	\$139.8	\$132.0	\$126.8	\$121.0
General sales tax	\$43.3	\$41.3	\$39.2	\$36.9	\$31.3	\$29.6
Wine liter tax	\$36.8	\$36.2	\$35.2	\$34.6	\$34.4	\$33.5
Malt beverage tax	\$42.8	\$43.2	\$42.9	\$43.3	\$42.8	\$43.7
Total	\$448.6	\$433.4	\$409.3	\$386.9	\$369.9	\$359.7

# Profit Forecast

# Financial Forecast – Revenue (Sales)

## Sales Forecast – 4.42% Increase in FY2018 Growing to 4.6% in FY2020

- Industry Growth Rates are projected at 4.0% for Fiscal Years 2018 – 2021
- \$3.6M of Credit Card Chargeback Indemnification in FY2017
  - FY2017 Growth adjusted from 4.7% to 4.3%
  - Indemnification ended after 1st Qtr. FY2018
- Forecast Includes Adjustments for Changes in the Number of Fridays & Saturdays vs. Sunday through Thursday (Calendar Impacts)
- FY2017 Additional Hour on Sunday Sales
  - Diminishing Impact in Future Years (13.1% Growth in FY2017, Increased by \$7.0M)
  - First Sunday with the Extra Hour was July 3<sup>rd</sup> (Unusually High Due to Holiday)
- Timing of Holidays (Example: Christmas Eve & New Year's Eve are on Sunday)
- YTD Sales are within 0.1% of Forecast

# Financial Forecast – P & L

	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022
<b>Revenue Sources:</b>		4.42%	4.55%	4.60%	4.60%	4.60%
Alcoholic Beverages (Store Sales)	940.1	981.6	1,026.3	1,073.5	1,122.9	1,174.5
Less: State Taxes on Spirits & Wine	154.6	161.4	168.7	176.5	185.0	193.5
<b>Net Store Sales</b>	785.5	820.2	857.5	897.0	937.8	981.0
Other Revenue	22.0	22.0	22.3	22.5	22.7	22.9
<b>Total ABC Revenue</b>	807.5	842.3	879.8	919.5	960.5	1,003.9
<b>Cost of Goods Sold:</b>	452.0	472.0	493.4	516.1	539.9	564.7
<b>Operating Costs:</b>	183.8	196.3	203.4	209.6	217.4	228.2
<b>Infrastructure Projects:</b>	-	-	3.2	8.4	19.6	21.3
<b>ABC Net Profit</b>	171.7	174.0	179.8	185.4	183.6	189.7

FY2018 Budget Book Requirement = \$174 million  
 (\$104M Profit Transfer + \$70M Miscellaneous Transfers)



# Operating Budget Items

# Budget Proposals

Request	FY2019	FY2020	Description
Cost of Goods Sold	\$20.1	\$54.9	Based on projected sales increase of 4.42% per year.
Point of Sale/Sales Audit	\$7.7	\$7.7	Initiates replacement of the point of sale system and supported hardware.
Transition from VITA email and SharePoint Services	\$0.7	\$0.6	Funds ABC's transition from VITA email and collaboration services as an Authority
Positions for new and high-performing stores	\$2.8	\$5.7	Adds 19 positions in first year and 38 in the second year to staff new stores and high volume sales stores
PT to FT employee conversion	\$0.5	\$1.0	Adds 25 full time positions each year to replace current part-time positions
Enforcement Activities*	\$0.8	\$0.8	Provides additional enforcement operations funded by revenue generated from license fee increases

All NGF funds; represented in millions.

\* Introduced budget includes \$1.9 million in each year for enforcement.

# Point of Sale/Sales Audit

- Entirety of ABC's Point of Sale and Sales Audit System end of life in two years
  - ABC must replace over 1,000 “lanes” of equipment and 400 store servers
  - System handles \$940M in transactions (\$614M in credit & debit card transactions)
- Extending current life not feasible
  - Higher costs incurred with extended life contracts
  - Higher failure rates
  - Shortage of equipment – delay or prevent store openings
  - Non-compliant with security standards – jeopardizes ability to take credit card payment (60% of sales)
- New system gives modern retailing opportunities
  - Multi-channel sales (ecommerce)
  - Real-time inventory
  - Customer programs – loyalty, coupons, mobile payment, etc.

# Point of Sale/Sales Audit

- Pilot Project Approach
  - Biennium funding will acquire and pilot a new POS System and Sales Audit System in up to five stores.
    - Covers license acquisition, hardware and software, implementation and maintenance
  - Additional funding in the next biennium would be required to acquire and deploy the new systems across all ABC stores.
  - The initial pilot will also provide more accurate costs for the deployment phase of the project.

# Email and SharePoint Transition

- **Virginia ABC transition to an Authority**
  - As part of the transition to an authority, Virginia ABC will no longer be required to receive its IT infrastructure and security services from VITA after October, 01, 2018
  - VITA plans to transition mail services to Google in April 2018
  - Virginia ABC's long-term strategy better suited to Office 365 - will gain significant cost savings/avoidance and improved service delivery from features included in a Microsoft Tenant agreement
- **Moving to Office 365 enables ABC to:**
  - Gain access to technologies needed for future projects at no additional cost
  - Consolidate its operations on fewer technologies
  - Reduce long-term complexity and the costs to run Virginia ABC's enterprise

# Email and SharePoint Transition

**ABC anticipates lower ongoing costs and enhanced service following the transfer**

- **Cost Savings/Avoidance**
  - Project breakeven year 7
  - 10 year net savings to ABC approach \$250k, before cost avoidance
  - Future cost avoidance could approach \$2M per year total savings
- **Improve Service Delivery**
  - Faster support for ABC account, email and identity management issues
  - Meet service demands for ABC's 7 day a week, 18 hours a day operation
  - Microsoft centric strategy for our desktops and identity provides lowest cost and best long term value for the agency

# Email and SharePoint Transition cont'

## Microsoft Solution will:

- Affordably provide COV accounts to 2,000 ABC employees who do not have COV accounts due to it being cost prohibitive
- Provide for identity management for ABC licensees (approximately 19,000 accounts) when the new licensing system is implemented
- Reduce the required accounts and passwords for most of Virginia ABC's information technology administrators - some have upwards of 100
- Provide for mobile identity management , allowing for mobile devices' extension to store managers, which is cost prohibitive now.
- Provides Skype for internal and external users at no additional cost. Virginia ABC will use this service to communicate with licensees and the public.

# FTEs for New and High-Performing Stores

Additional staff necessary to support new and high performing stores.

- \$2.8 million and 19 positions in FY 2019
- \$5.7 million and 38 positions in FY 2020

## New Stores

- Approximately one-third of year over year revenue growth attributable to new stores
- ABC targets opening 8 new stores each year and needs staff to support these stores
- 8 new managers - \$500k
- 9,000 wage hours - \$830k
- Store expenses - \$950k



# FTEs for New and High-Performing Stores

## High-Performing Stores

- As same store sales grow, the highest performing stores need additional positions to account for higher customer counts and sales volume
- Anticipate 11 stores will add a manager or assistant manager position - \$600k
- Additional positions help to enhance profitability by maintaining service levels at these high volume, high traffic stores

# PT to FT Conversion of Employees

- Virginia ABC greatly impacted by 29 hour rule with passage of ACA
  - Hired almost 600 additional PT employees to cover needed hours
  - Hour limitations make it more difficult to retain and schedule employees
- Turnover of part-time workforce at 50% annually
  - High turnover diminishes customer experience and wastes valuable training time and resources
  - Training cost is about \$500 per employee; Retail typically hires around 1,000 PT employees each year.
- Proposal's approach seeks to slowly replace part-time positions with full-time positions while assessing proper mix of employees
- Conversion approach working thus far
  - 50 positions created last biennium – only 4 resignations and 8 promotions

# PT to FT Conversion of Employees

- Stores identified for FT conversion based on sales volume, customer count, ability to hire
- Reexamine need for conversion as fill positions and measure turnover
- \$41,875 - Average salary and benefits for a senior sales associate
- 1 FTE eliminates approximately 1.3 PT

# Enforcement Activities

- Virginia ABC 2017 licensee fee study – found fee revenue did not cover cost of enforcement.
- Current fees generate \$14.5M in revenue while the budget appropriation provides \$18M.
- ABC estimates it costs approximately \$22.6M for current enforcement, hearings and compliance activities.
- Last comprehensive license fee increase in 2004 did not go to cover enforcement activities.
- Licensee numbers growing dramatically (over 19,000 annual and 24,000 one-day) while the number of field agents is in decline
- Direct shipping specifically identified as an area in need of greater enforcement
  - Unlicensed shipping occurring as is shipping in excess of statutory maximums

# Enforcement Activities

- Proposed fee revenue is the first step in addressing the shortfall
  - Will go to covering existing costs, increasing enforcement personnel and focused enforcement of direct shipping laws
- During 2018 Virginia ABC will work with stakeholders to review all fees
- Enforcement Staffing Plan
  - Will utilize existing, unfunded, positions
    - 7 Licensing Technicians
    - 3 Special Agents
  - Licensing/Compliance Technicians
    - Focus on one-day licenses and common licensee questions
    - Assigned duties will allow agents to focus on more complex enforcement issues and licensee outreach
    - Review common carrier shipping reports for direct shipping compliance
  - Special Agents
    - Assigned to high-need regions to reduce current licensee to agent ration of over 200 to 1

# Virginia ABC Capital Needs



# ABC Warehouse and Central Office

- ABC has outgrown its existing warehouse and central office – confirmed by internal and external analysis
- ABC and DGS worked together in 2017, pursuant to budget language, to go to market with an RFP for a turnkey solution
  - Considered use of state land, use of current site and financing options
- RFP process demonstrated interest in the project, gave greater confidence in cost estimates and reduced the projected overall cost
- Budget language directs ABC and DGS to proceed with the private developer option to acquire a new warehouse and central office
- ABC and DGS working together to shortlist developers and refine project scope, cost and financing to further inform budget decisions.

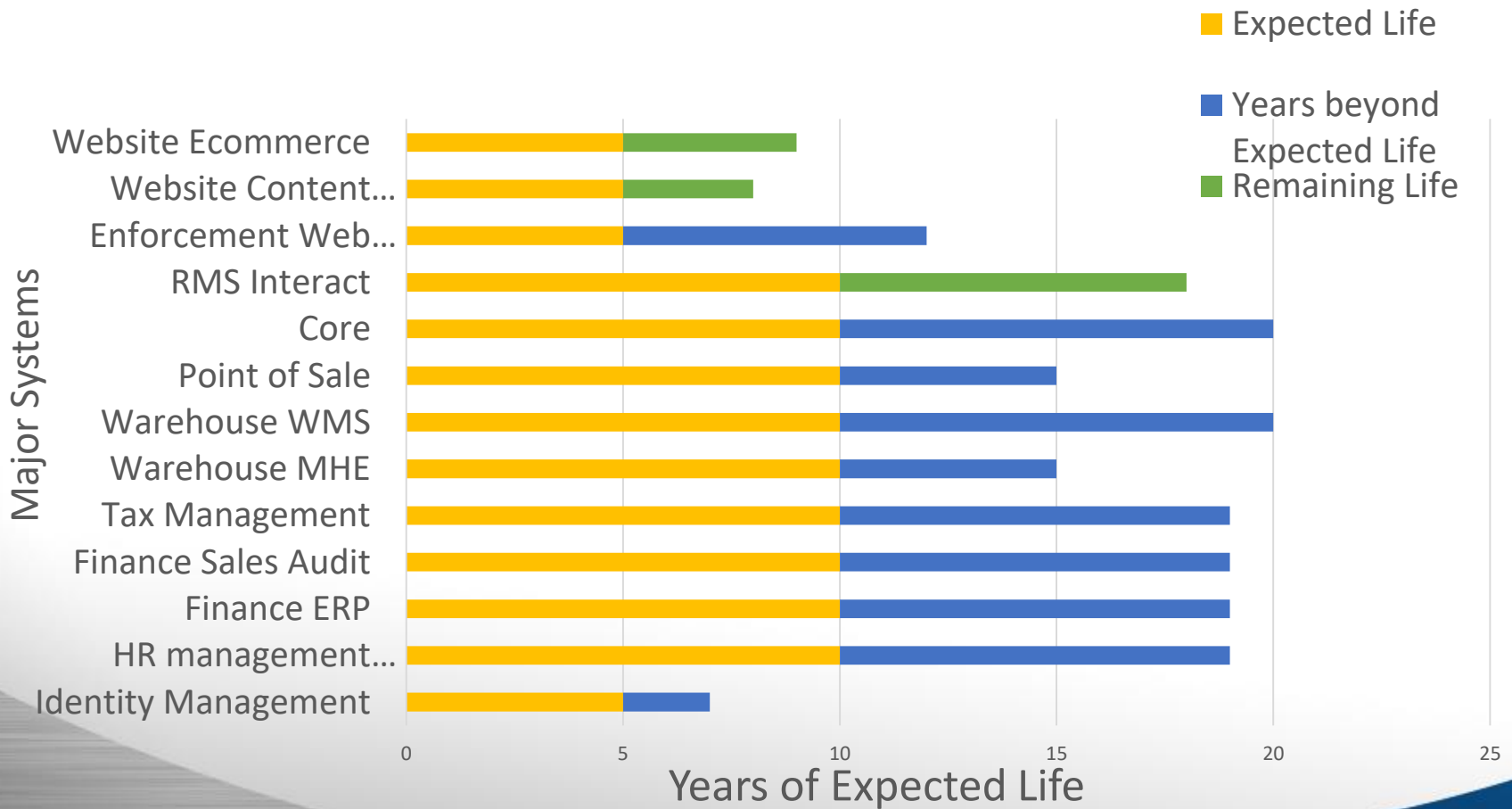
# IT Reinvestment Program



# ABC IT Modernization

- Assessment conducted as part of a 2014 review of ABC's Operations determined aging IT infrastructure threatened operations and revenue generation
  - Virginia ABC operating outdated systems that are either out of support or soon to be out of support
  - Several more major systems, while now compliant, will become deficient – Finance, Point of Sale, Sales Audit, Inventory Management, and HR
- Modernization plan presented to Administration and General Assembly in 2015
  - Remediate aging systems and allow for continued growth
  - ABC estimated \$65 million needed over six years for technology upgrades
  - Figure includes the \$25 million for projects approved in 2015
- ABC is also progressing in closing existing VITA security exceptions and APA audit points
  - Completed projects have closed 10 of 38 security exceptions
  - Completed projects have addressed two APA audit points
  - Underway projects will address additional security exceptions

# Expected Life of ABC Systems Compared to Current System State



# Projects Included in Chapter 665: of the 2015 Appropriation Act

Item	Status
Financial Management System	Contract award target Summer 2018
Licensing System	Project underway
Website Phase II	Last Module Complete by Spring 2018
Broadband for Stores	Complete
Electrical System	Deferred

# Future ABC IT Projects

Item	Target Completion	Rationale
Website Phase III	2019	Driven by Web Strategy project from FY 2018
Identity Management	2019	Obsolete components – security exception required
Warehouse Management (MIPS)	Tied to Building Decision	Conveyor system and transportation system – needed in current or new facility – security exception required
Inventory Management	Tied to Building Decision	Same as above – Unable to support real time inventory
Tax Management	2021	Using outdated TAX software, many submissions manually keyed – security exception required
Human Resource/Payroll	2022	Homegrown system with limited functionality; requires software development for updates; needs update for Authority Transition– security exception required